

**DEPARTMENT OF GENERAL SERVICES  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 1999**

***AUDITOR OF  
PUBLIC  
ACCOUNTS***



***COMMONWEALTH OF VIRGINIA***

## **AUDIT SUMMARY**

Our audit of the Department of General Services for the year ended June 30, 1999, found:

- an internal control matter that we consider a reportable condition; however, we do not consider it to be a material weakness;
- one instance of noncompliance that is required to be reported;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate corrective action with respect to audit findings relating to developing and enforcing written policies and procedures for fiscal service teams.

Our audit findings are included in the section, "Internal Control and Compliance Findings and Recommendations," and are entitled:

- Promptly Update or Delete System Access
- Properly Perform FAACS Reconciliations

- T A B L E   O F   C O N T E N T S -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1-4
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	5
INDEPENDENT AUDITOR'S REPORT	6-7
AGENCY OFFICIALS	8

## AGENCY HIGHLIGHTS

The Department of General Services (General Services) provides support services to other agencies and local governments in eight major areas:

- Procurement
- Distribution Center
- Surplus Property
- Risk Management
- Facilities Management
- Capital Outlay
- Laboratory Analytical Services
- Graphics

General Services funds the majority of these activities through charges for goods and services and accounts for the transactions in Internal Service and Enterprise Funds. General Funds are appropriated to cover administrative activities not supported by these service fees. The following chart reflects the basic revenue and expenditure activity in each of these broad areas for fiscal year 1999.

Service Area	Fiscal Year 1999 Revenues	Fiscal Year 1999 Expenditures
Procurement	\$ 3,999,227	\$ 3,883,276
Distribution Center	41,061,225	41,434,427
Surplus Property	2,535,059	1,946,158
Risk Management	58,884,571	72,572,284
Facilities Management	25,274,501	29,442,982
Capital Outlay	1,575,470	1,537,028
Laboratory Analytical Services	17,846,648	17,554,679
Graphic Design	394,050	382,519

Services where expenditures exceed revenues are supplemented either through retained earnings or General Fund appropriations.

### Procurement Services

Many of the services General Services offers center around procurement. The Division of Purchase and Supply (the Division) within General Services handles most of these responsibilities, from procurement management, to compliance, to training for state agencies and vendors.

The Division determines eligibility and recommends levels of purchasing authority, as well as procurement policy changes and training needs through on-site observations and reviews of agencies. It manages procurements over agency purchasing authority levels, as well as statewide contracts.

The Division also updates and issues revisions to the Agency Procurement and Surplus Property Manual and the Vendors Manual. The Division performs periodic compliance reviews of state agency purchasing efforts based on these manuals.

Finally, the Division produces and distributes the Virginia Business Opportunities newsletter to over 3,000 subscribers weekly. The newsletter lists current government bidding opportunities estimated to cost more than \$30,000.

### Distribution Center

The Virginia Distribution Center (VDC) sells over 950 different items, including canned, packaged, and frozen foods, janitorial and maintenance supplies, and paper products. The VDC distributes these products to approximately 1,000 locations across the Commonwealth, including state agencies, colleges, correctional centers, mental health facilities, localities, fire departments, and rescue squads. The VDC buys its products in volume and then resells them to its customers in smaller quantities.

VDC staff performs purchasing, inventory control, and quality control functions. A private trucking firm distributes the products. The VDC covers its expenses with an eight percent mark-up on the items sold.

### Surplus Property

The Division acts as an agent for state agencies in the sale of state and federal surplus property.

The federal government donates its surplus property to the Commonwealth and the Division finds eligible buyers, including state agencies, cities, towns, localities, colleges, and nonprofit health and education organizations to purchase the property. Recipients of donated property pay a handling fee to receive the property.

State surplus property is available for transfer or sale to state agencies, institutions and political subdivisions. The Division facilitates the transfer of state surplus property between these entities. The Division also sells state surplus property by various competitive methods to the general public. The primary method of sale is through public auction, with about 50 auctions conducted each year around Virginia.

### Risk Management

Risk Management provides state insurance protection to employees, properties, and various participating local governments through a variety of insurance programs. The programs include property, motor vehicle, worker's compensation, public liability, employee blanket surety bonds, medical malpractice, and similar liability insurance for local governments and constitutional officers. Some programs are self-insured and some use insurance companies. Risk Management bills state agencies, the Compensation Board, and local governments for insurance premiums to cover current and future claims.

Effective May 1, 1998, General Services outsourced the management of the Worker's Compensation Program to Managed Care Innovations (MCI). MCI performs all functions of workers compensation previously done by Risk Management. However, the General Services' managerial structure within Risk Management remains intact to monitor MCI's contract compliance. General Services has also contracted with an external auditor to perform periodic reviews of MCI. General Services contracted with an external auditor to complete a SAS 70 Review of Operational Controls on MCI during the audit period. The review noted several weaknesses and General Services is working with MCI on a corrective action plan.

## Facilities Management

The Division of Engineering and Building (DEB) is in charge of operating, maintaining, securing, and providing capital planning and technical services for all state-owned buildings and properties at the seat of government. DEB supports these objectives primarily through agency service agreements and a rental plan.

The rental plan provides for the maintenance, repair, and operation of state-owned facilities in the Capitol Square Complex. DEB bills agencies annually for rent based on this plan. Rent revenue covers normal expenses incurred by DEB in the maintenance and upkeep of the buildings.

DEB also does maintenance and repair work for state-owned buildings not under the purview of General Services. These agencies pay General Services either annually or semi-annually for the work performed under their negotiated service agreements.

## Capital Outlay

DEB is also responsible for directing and administering the Commonwealth's capital outlay program. DEB staff consists of registered architects and engineers, fire protection engineers, and capital program technicians. They provide review services on behalf of other state agencies for major renovations and repairs, new construction, and acquisitions costing more than \$500,000. DEB staff also prescribes and enforces handicapped accessibility standards, and develops budget estimates for capital projects contained in the Governor's budget.

To facilitate agency management of capital outlay projects, DEB develops, updates, and maintains standard procedures for the procurement of professional and construction services as documented in the Construction and Professional Services Manual. DEB also reviews and approves building plans and specifications for compliance with the Uniform Statewide Building Code and other technical and procurement requirements.

## Laboratory Analytical Services

The Division of Consolidated Laboratory Services (DCLS) performs various analytical testing for state regulatory, environmental, and public health programs. DCLS also provides these services to other states, including West Virginia, North Carolina, and New Jersey. Each year, DCLS performs over three million tests in laboratories located in Richmond, Luray, and Abingdon.

DCLS services include testing and analysis of a wide variety of samples from the environment, food products, gasoline, animal feeds, fertilizers, and blood. Other DCLS services include examination of human specimens for disease control, lottery ticket stock, and laboratory inspection and certification. In addition to routine testing, DCLS may respond to various health and environmental emergencies in Virginia.

DCLS receives partial funding for these activities from the Departments of Agriculture, Environmental Quality, Health, and Motor Vehicles. The remainder of the funding comes from appropriations.

## Graphics

The Office of Graphic Communications is a marketing and communication design resource to state agencies, colleges, and universities. They provide print management services focusing on printing techniques, papers and inks, and printing specifications and quality standards. The Office also provides project management services from concept development through delivery of finished product. The Office is a mandatory source for design services costing over \$750. The Office charged an hourly rate of \$45 for fiscal year 1999 to cover its expenses.

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### Promptly Update or Delete System Access

Fiscal Services did not promptly change CARS or FAACS access for terminated or transferred employees. Fiscal Services did not delete CARS access until one to six months after the termination date for the six terminated employees we tested. In addition, Fiscal Services did not delete the FAACS access of one employee who terminated in May 1999, until our auditors informed Fiscal Services that the employee still had access in November 1999. Another employee who had not needed FAACS access since December 1998, remained undeleted until November 1999, when our auditor informed Fiscal Services that the employee still had access.

Management should delete all systems access for terminated employees and change systems access for transferred employees promptly. Management should review current access policies for reasonableness and modify those policies, as deemed necessary, to facilitate the prompt update and deletion of system access.

The Controller took corrective action regarding the identified instances once notified and has implemented new policies to address this issue.

### Properly Perform FAACS Reconciliations

The Fiscal Office does not perform monthly FAACS reconciliations in accordance with Department of Accounts guidelines, but does an annual reconciliation at June 30. Sections 50 and 80 of the FAACS Manual require monthly reconciliations. Management should ensure that FAACS transactions are recorded and reconciled monthly as required.



May 16, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Department of General Services** for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review General Services' internal control, test compliance with applicable laws and regulations, and evaluate accuracy of financial transactions on the Commonwealth Accounting and Reporting System. We also reviewed General Services' corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of General Services' operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures	Accounts Payable
Revenue	Accounts Receivable
Fixed Assets	Inventory

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether General Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

General Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide

reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that General Services properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. General Services records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We noted a certain matter involving internal control and its operation that we considered a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect General Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition is discussed in the section entitled, "Internal Control and Compliance Findings and Recommendations." We believe that the reportable condition included in this report is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards.

General Services has taken adequate corrective action with respect to the audit finding reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on August 2, 2000.

AUDITOR OF PUBLIC ACCOUNTS

JBS/kva  
kva:32

Department of General Services  
Richmond, Virginia

Donald C. Williams  
Director

D.B. Smit  
Deputy Director

William G. Poston  
Deputy Director

Bryan W. Wagner  
Controller

Margaret E. Maupin  
Director of Management Audit  
and Review Services

